

# Council Workshop

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# Water and Wastewater Service Workshop

City of Morgan Hill

October 21, 2015

# Moving Forward

## Priorities and Goals – Why?

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- Maintaining Public Health and Safety
  - ▣ Fight Fires and Protect Property
  - ▣ Provide Safe, Clean Drinking Water
  - ▣ Prevent Sewage Overflows and Spills
  - ▣ Maintain Reliable and Dependable Water and Wastewater Systems



# Moving Forward

## Priorities and Goals – How?

3

- Maintaining Reliable, Safe Water and Wastewater Systems
- Continuing to Address Aging and Deteriorating Water and Wastewater Systems
- Being Good Stewards of Water Supply with Conservation
- Balancing Financial and Environmental Sustainability



# Water Supply Planning

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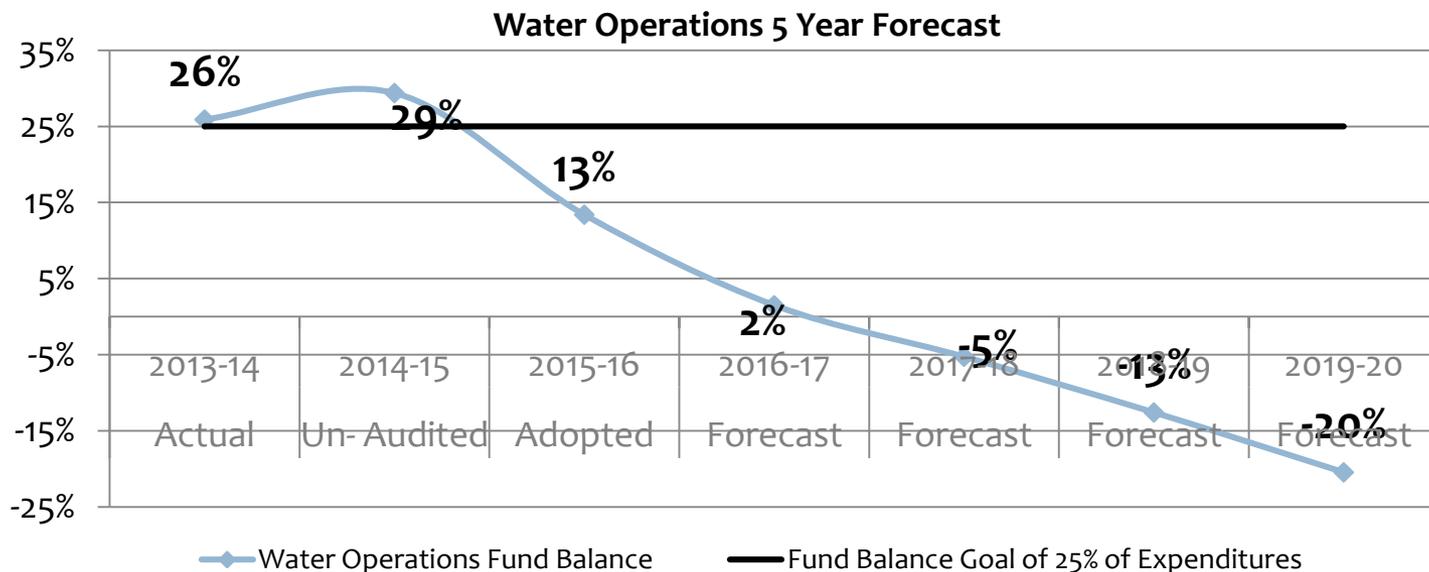


- Long Term Water Conservation Mandate
  - ▣ 20% Reduction By 2020
- Short Term Water Reduction Requirement
  - ▣ Governor's Executive Order - 28% Reduction
  - ▣ Santa Clara Valley Water District (SCVWD) Recommendation - 30% Reduction
  - ▣ Adopted City Goal - 30% Reduction
  - ▣ Morgan Hill Community Currently Conserving at 31% for This Year

# Financial Planning

## □ Financial Planning Process Underway

- ▣ To Understand City Projected Revenues and Expenditures
- ▣ Operations and Maintenance (O&M)



# Financial Planning

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- Financial Planning Process Underway (continued)
  - ▣ Capital Investment Requirements
  - ▣ Reserve Levels Requirements
  - ▣ Debt Payments

# Rate Structure Planning

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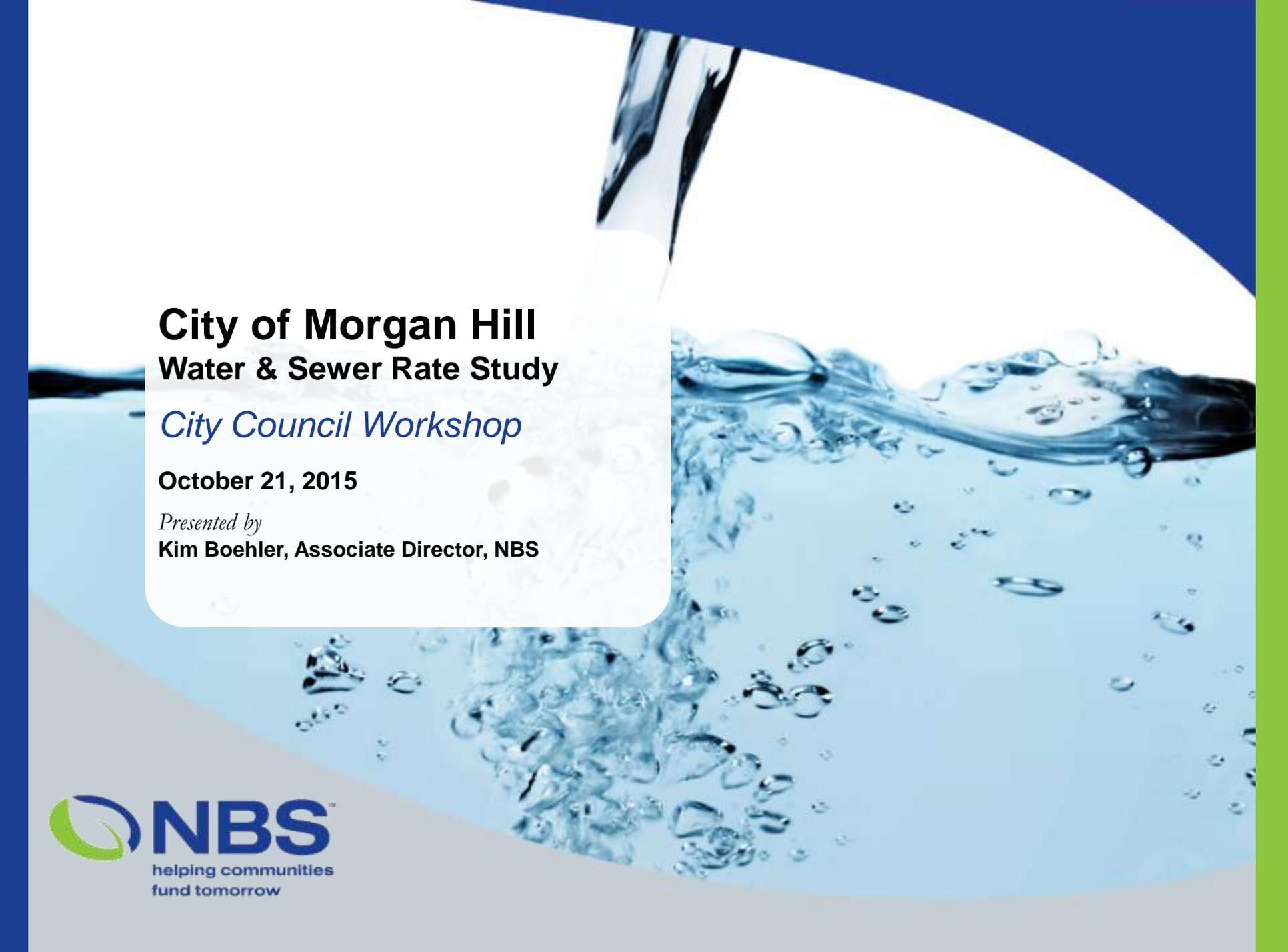
- Fair and Equitable Rates for Our Customers
  - ▣ 2015 Water and Wastewater Rate Study
    - Re-evaluated Fixed/Variable Costs vs. Revenues
    - Prepared Recommended Rate Structure to Meet Objectives (Fees Cannot Exceed Costs of Service)

# Rate Structure Planning

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## □ 2015 Water and Wastewater Rate Study Assumptions

- Long term water conservation at 30%, 30%, 20%, 20%, 20% over the next five years to ensure that we meet the 20% water reduction by 2020 State mandate.
- Maintain the minimum debt coverage, and continue to grow debt coverage ratios for better credit ratings for future debt issuance.
- By year 5 of the 5-year projection, Fund Balance Reserve Policy set by the City Council is met.
- Build fund reserves to provide for future capital projects financing.
- Does not include a drought rate/surcharge, but moving towards higher fixed revenues.

A high-speed photograph of water splashing, creating numerous bubbles and droplets. The water is clear and blue, set against a white background. The splash is captured in a dynamic, mid-air moment, with water droplets of various sizes scattered around the main splash. The overall composition is clean and modern, with a focus on the texture and movement of water.

# City of Morgan Hill Water & Sewer Rate Study

*City Council Workshop*

**October 21, 2015**

*Presented by*

**Kim Boehler, Associate Director, NBS**

# Overview of Presentation

- **Overview of Key Rate Study Tasks**
- **Water Rate Study**
  - ✓ Findings & Recommendations
  - ✓ Overview of Financial Plan
  - ✓ Overview of Cost-of-Service Analysis
  - ✓ New Rate Alternatives and Bill Comparisons
- **Wastewater Rate Study**
  - ✓ Findings & Recommendations
  - ✓ Overview of Financial Plan
  - ✓ New Rates and Bill Comparisons
- **Next Steps**

# Overview of Key Rate Study Tasks

## *Key Tasks in a Comprehensive Rate Study:*

### 1 FINANCIAL PLAN / REVIEW REQUIREMENTS

- Determines total revenue needed from rates.
- Determines annual % adjustments to rates needed.

### 2 COST-OF-SERVICE ANALYSIS

- Allocates revenue requirements to customer classes in a "fair and equitable" manner .
- Complies with Prop 218.

### 3 RATE DESIGN

- Determines the rate structure used to collect revenue from each customer class.
- Reflects City's Policies & Rate Objectives

# **Water Rate Study**

## *Findings, Recommendations & Outcomes*

# Water Rate Study Recommendations

## ***Recommended Reserve Fund Targets:***

- 1. Operations Reserve** – *Per City Policy*, Equal to 90-days of O&M Expenditures, or \$2.3 million in FY 2015/16.
- 2. Rate Stabilization Reserve** – *Per City Policy*, Equal to 20% of Estimated Rate Revenue, or \$1.5 million in FY 2015/16.
- 3. Water System Replacement Reserve** – Equal to 3% of Net Assets, or \$1.4 million in FY 2015/16.

## ***Debt Coverage Requirement:***

- City Must Maintain a 1.20 Debt Coverage Ratio to Comply with Revenue Bond Covenants.

# Water Rate Study Recommendations, cont'd.

## ***Recommended Improvements to Water Rate Structure:***

- 1. Uniform Volumetric Rate** – The City Should Implement a Uniform Volumetric Rate Structure, due to:
  - *San Juan Capistrano Court Ruling Requires a Solid Cost-Basis for Tiered Water Rates.*
  - *City's Single Source of Supply make Multi-Tiers difficult.*
  - *Customers are Conserving More than the State's Mandate.*
- 2. Fixed Charges by Customer Class** – *Separate Residential and Non-Residential Charges Better Reflect Cost-of-Service.*
- 3. Fixed/Variable Allocation %'s** – Two Alternatives to Consider:
  - *Alternative #1 – 50% Fixed & 50% Variable*
  - *Alternative #2 – 5-Year Phased-in Transition from about 20% Fixed/80% Variable to 70% Fixed/30% Variable*

# Water Financial Plan Assumptions

## *Inflation and Conservation Factors Used in Analysis:*

- ✓ General Costs = 3%
- ✓ Labor Costs = 5%
- ✓ Electricity Costs = 4%
- ✓ Construction Costs = 3.5%
- ✓ Customer Growth = average of 2% per Year
- ✓ FY 2015/16 Reduction in Rate Revenue Due to Conservation = -18%
- ✓ FY 2017/18 Rebound in Rate Revenue Due Ongoing Water Conservation

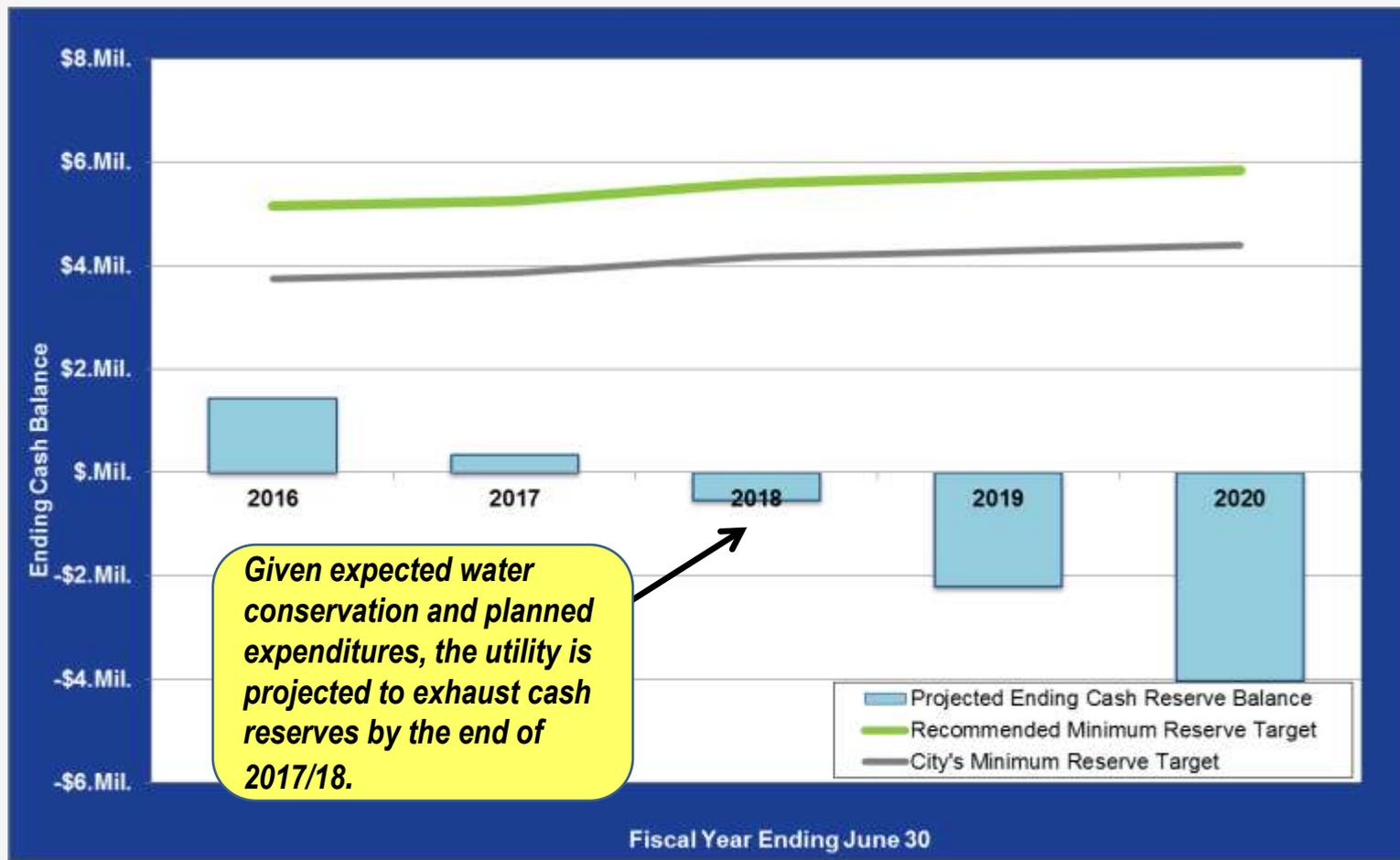
## *Proposed Annual Increases in Rate Revenue:*

Effective Dates	1/1/2016 <sup>1</sup>	4/1/2016	1/1/2017	1/1/2018	1/1/2019	1/1/2020
Proposed Increases in Rate Revenue	6.25%	9.00%	7.25%	7.25%	7.25%	7.25%

1. January 1, 2016 rate increase of 6.25% was previously approved in a Proposition 218 process.

# Water Utility Projected Cash Performance

*Projected Cash Balances, if No Adjustment to Rates is Implemented:*



**Given expected water conservation and planned expenditures, the utility is projected to exhaust cash reserves by the end of 2017/18.**

# Water Capital Improvement Program

Water Utility - Planned Capital Improvement Projects	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
New Well / Property Construction	\$ 1,963,000	\$ -	\$ 1,221,669	\$ 443,744	\$ -
New Water Reservoirs	\$ 2,286,000	\$ -	\$ -	\$ -	\$ -
New Water Mains	\$ 1,423,000	\$ 1,086,960	\$ -	\$ 221,872	\$ 229,682
Booster Pump Rehabilitation	\$ 1,394,111	\$ -	\$ -	\$ -	\$ -
Rehabilitate Water Wells	\$ 213,000	\$ -	\$ -	\$ -	\$ -
Water Main Replacement	\$ 580,000	\$ -	\$ -	\$ -	\$ -
Re-Coat Water Reservoir/Tanks	\$ 415,000	\$ -	\$ -	\$ -	\$ -
Underground Monterey Utilities	\$ 125,000	\$ -	\$ -	\$ -	\$ -
DeWitt Avenue "S" Curve Realignment	\$ 483,000	\$ -	\$ -	\$ -	\$ -
Recycled Water MP Supplemental Study	\$ 100,000	\$ -	\$ -	\$ -	\$ -
Estimated Future Projects	\$ -	\$ -	\$ 1,071,639	\$ 1,109,361	\$ 1,148,410
<b>Total: Capital Improvement Program Costs<sup>1</sup></b>	<b>\$ 8,982,111</b>	<b>\$ 1,086,960</b>	<b>\$ 2,293,308</b>	<b>\$ 1,774,977</b>	<b>\$ 1,378,092</b>
<b>Planned CIP Funding Sources</b>					
Revenue Bond Proceeds <sup>2</sup>	\$ 8,982,111	\$ -	\$ 652,000	\$ -	\$ -
Impact Fees (New Customers)	\$ -	\$ 1,086,960	\$ 1,221,669	\$ 665,616	\$ 229,682
Water Rates and Reserves (Existing Customers)	\$ -	\$ -	\$ 419,639	\$ 1,109,361	\$ 1,148,410
<b>Total: Capital Funding Sources</b>	<b>\$ 8,982,111</b>	<b>\$ 1,086,960</b>	<b>\$ 2,293,308</b>	<b>\$ 1,774,977</b>	<b>\$ 1,378,092</b>

1. Capital Improvement Program Costs are in projected future values (includes cost inflation of 3.52% per year).

2. Funding from bond proceeds for capital project costs is allocated 43% to new customers and 57% to existing customers.

**Total Capital Expenditures Planned for Next Five Years = \$15.5 mil.**

# Water Utility Financial Plan

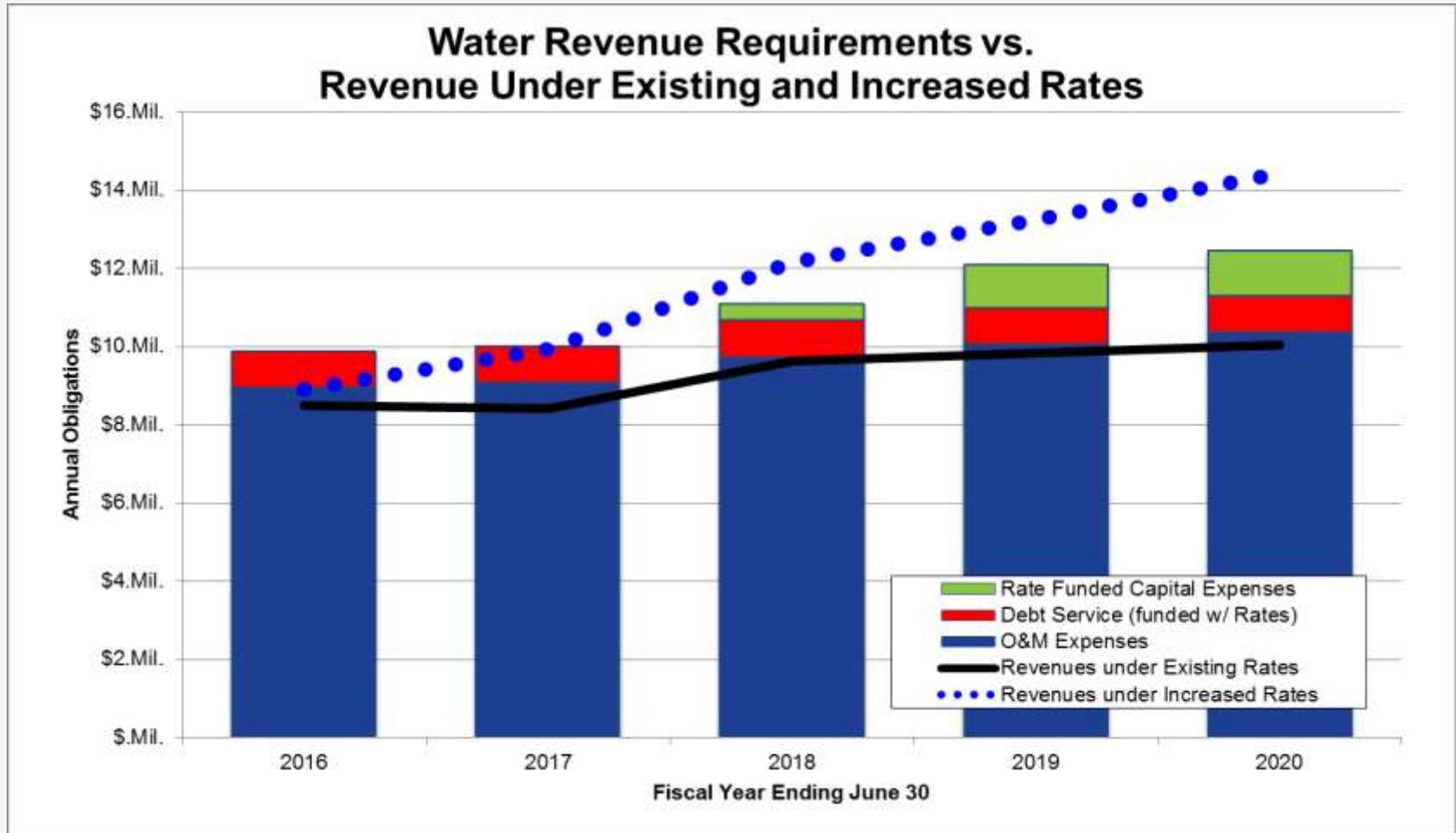
Summary of Sources and Uses of Funds and Net Revenue Requirements	City's Budget Projections				
	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
<b>Sources of Water Funds</b>					
Rate Revenue Under Prevailing Rates <sup>1</sup>	\$ 7,329,555	\$ 7,476,146	\$ 8,703,075	\$ 8,877,136	\$ 9,054,679
Non-Rate Revenues	1,111,704	939,388	923,229	948,840	962,224
Interest Earnings	47,138	3,182	3,557	6,460	16,645
<b>Total Sources of Funds</b>	<b>\$ 8,488,396</b>	<b>\$ 8,418,715</b>	<b>\$ 9,629,861</b>	<b>\$ 9,832,437</b>	<b>\$ 10,033,548</b>
<b>Uses of Water Funds</b>					
Operating Expenses	\$ 8,924,651	\$ 9,051,571	\$ 9,709,848	\$ 10,034,316	\$ 10,339,632
Debt Service	939,538	945,549	944,774	943,336	944,184
Rate-Funded Capital Expenses	-	-	419,639	1,109,361	1,148,410
<b>Total Use of Funds</b>	<b>\$ 9,864,189</b>	<b>\$ 9,997,120</b>	<b>\$ 11,074,261</b>	<b>\$ 12,087,013</b>	<b>\$ 12,432,227</b>
<b>Surplus (Deficiency) before Rate Increase</b>	<b>\$ (1,375,793)</b>	<b>\$ (1,578,405)</b>	<b>\$ (1,444,400)</b>	<b>\$ (2,254,576)</b>	<b>\$ (2,398,679)</b>
Additional Revenue from Rate Increases	404,271	1,517,140	2,525,139	3,405,968	4,382,423
<b>Surplus (Deficiency) after Rate Increase</b>	<b>\$ (971,522)</b>	<b>\$ (61,265)</b>	<b>\$ 1,080,738</b>	<b>\$ 1,151,392</b>	<b>\$ 1,983,744</b>
<b>Projected Annual Rate Increase<sup>2</sup></b>	<b>9.00%</b>	<b>7.25%</b>	<b>7.25%</b>	<b>7.25%</b>	<b>7.25%</b>
<b>Cumulative Rate Increases</b>	<b>9.00%</b>	<b>16.90%</b>	<b>25.38%</b>	<b>34.47%</b>	<b>44.22%</b>
<b>Net Revenue Requirement<sup>3</sup></b>	<b>\$ 8,705,347</b>	<b>\$ 9,054,551</b>	<b>\$ 10,147,475</b>	<b>\$ 11,131,713</b>	<b>\$ 11,453,358</b>
<b>Projected Debt Coverage After Rate Increase</b>	<b>1.59</b>	<b>1.88</b>	<b>2.64</b>	<b>3.11</b>	<b>3.63</b>
<b>Debt Coverage Requirement</b>	<b>1.20</b>	<b>1.20</b>	<b>1.20</b>	<b>1.20</b>	<b>1.20</b>

1. Per direction from City Staff, the City's water sales revenue projections indicate a 16% increase in rate revenue due to a 10% rebound in consumption in FY 2017/18.

2. FY 2015/16 rate adjustment is effective 4/1/2016 and each subsequent adjustment is effective on January 1st of each year.

3. Total Use of Funds less non-rate revenues and interest earnings. This is the annual amount needed from water rates.

# Water Utility Financial Plan, cont.

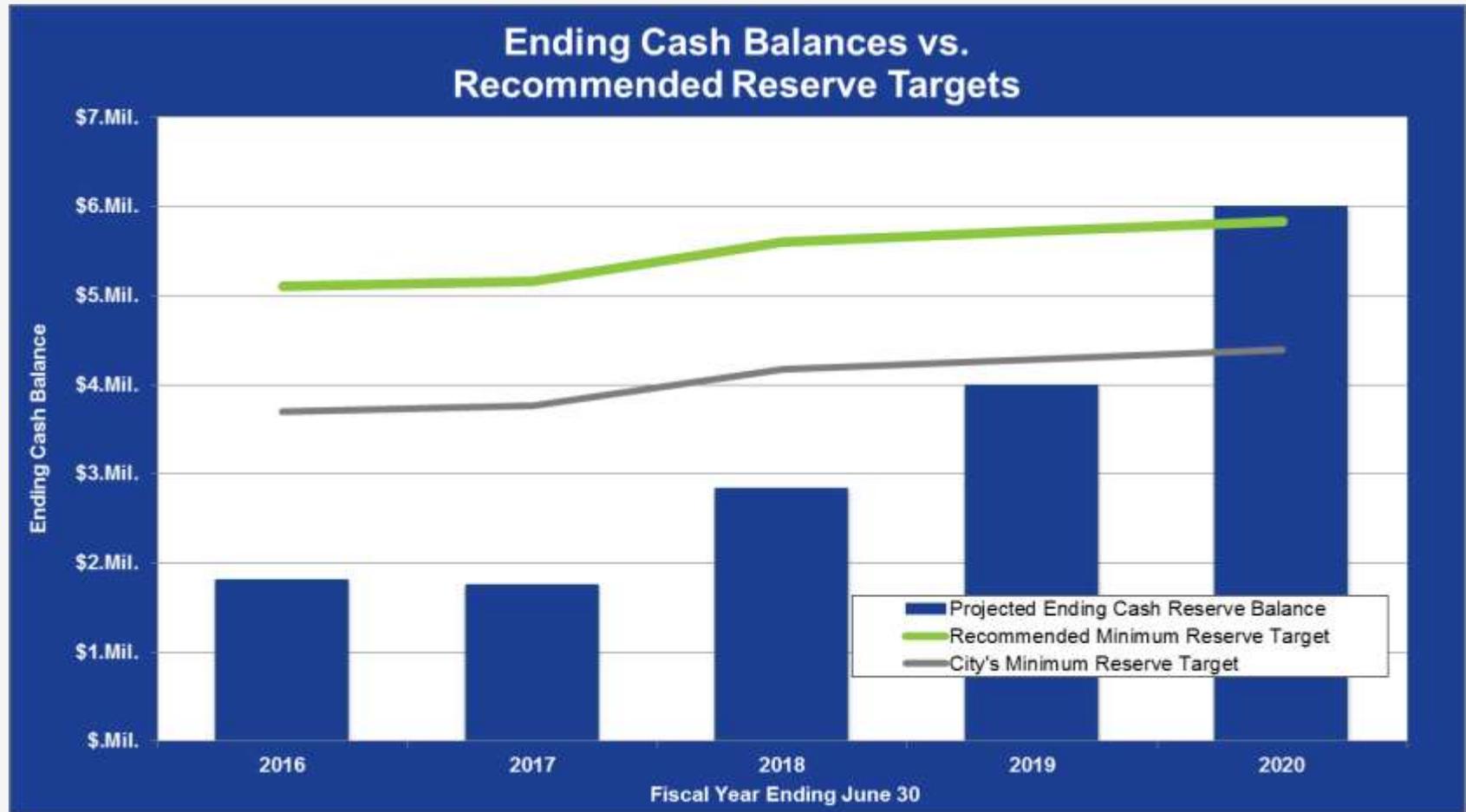


# Water Utility Financial Plan, contd.

## *Projected Cash Reserves Under Proposed Financial Plan:*

Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget	Projected			
	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
<b>Water Operations Fund (650)</b> <i>Recommended Minimum Target</i>	\$ 1,272,626 2,231,000	\$ 711,361 2,263,000	\$ 1,292,100 2,427,000	\$ 2,184,000 2,509,000	\$ 2,540,000 2,585,000
<b>Water System Replacement Fund (653)</b> <i>Recommended Minimum Target</i>	\$ - 1,407,700	\$ - 1,399,400	\$ - 1,426,500	\$ 35,283 1,437,600	\$ 1,640,834 1,436,900
<b>Rate Stabilization Fund (652)</b> <i>Recommended Minimum Target</i>	\$ 536,968 1,465,911	\$ 1,038,310 1,495,229	\$ 1,543,502 1,740,615	\$ 1,775,427 1,775,427	\$ 1,810,936 1,810,936
<b>Total Ending Balance</b>	<b>\$ 1,809,594</b>	<b>\$ 1,749,671</b>	<b>\$ 2,835,601</b>	<b>\$ 3,994,711</b>	<b>\$ 5,991,770</b>
<i>Total Recommended Minimum Target</i>	<i>\$ 5,104,611</i>	<i>\$ 5,157,629</i>	<i>\$ 5,594,115</i>	<i>\$ 5,722,027</i>	<i>\$ 5,832,836</i>

# Water Utility Financial Plan, contd.



# Water Cost-of-Service Analysis

## *Cost-of-Service Analysis Results for Fiscal Year 2015/16 Rate Alternative #1 (50% Fixed & 50% Variable):*

Customer Class	Cost Classification Components				Cost of Service Net Revenue Reqts.	% of COS Net Revenue Reqts.
	Commodity	Capacity	Customer	Fire Protection		
Residential	\$ 2,989,835	\$ 2,644,724	\$ 329,915	\$ -	\$ 5,964,475	70%
Non-Residential	\$ 1,254,435	\$ 1,134,331	\$ 44,524	\$ -	\$ 2,433,289	29%
Fire	\$ -	\$ -	\$ 7,402	\$ 83,375	\$ 90,777	1%
<b>Grand Total</b>	<b>\$ 4,244,270</b>	<b>\$ 3,779,055</b>	<b>\$ 381,841</b>	<b>\$ 83,375</b>	<b>\$ 8,488,540</b>	<b>100%</b>

# Water Cost-of-Service Analysis, cont'd.

## Cost Allocations to Each Water Rate Component

Rate Alternative #2 (Transition to 70% Fixed & 30% Variable):

Classification Components	Cost-of-Service Split	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
Commodity-Related Costs	29%	70%	60%	50%	40%	30%
Capacity-Related Costs	63%	26%	35%	45%	54%	63%
Customer-Related Costs	6%	3%	4%	4%	5%	6%
Fire Protection-Related Costs	1%	1%	1%	1%	1%	1%
<b>Net Revenue Requirement</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Classification Components	Cost-of-Service Split	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
Commodity-Related Costs	\$ 2,490,374	\$ 5,941,978	\$ 5,584,733	\$ 5,810,499	\$ 5,085,116	\$ 4,172,147
Capacity-Related Costs	5,371,998	2,237,143	3,298,453	5,173,609	6,814,285	8,717,578
Customer-Related Costs	542,794	226,044	333,280	522,748	688,524	880,835
Fire Protection-Related Costs	83,375	83,375	91,423	114,142	124,866	136,597
<b>Target Revenue from Proposed Rates</b>	<b>\$ 8,488,540</b>	<b>\$ 8,488,540</b>	<b>\$ 9,307,888</b>	<b>\$ 11,620,998</b>	<b>\$ 12,712,791</b>	<b>\$ 13,907,158</b>

## Fiscal Year 2015/16 Allocations

Customer Class	Cost Classification Components				Cost of Service Net Rev. Reqts.	% of COS Net Revenue Reqts.
	Commodity	Capacity	Customer	Fire Protection		
Residential	\$ 4,185,770	\$ 1,565,637	\$ 195,305	\$ -	\$ 5,946,711	70%
Non-Residential	\$ 1,756,209	\$ 671,507	\$ 26,357	\$ -	\$ 2,454,073	29%
Fire	\$ -	\$ -	\$ 4,382	\$ 83,375	\$ 87,757	1%
<b>Net Revenue Requirement</b>	<b>\$ 5,941,978</b>	<b>\$ 2,237,143</b>	<b>\$ 226,044</b>	<b>\$ 83,375</b>	<b>\$ 8,488,540</b>	<b>100%</b>

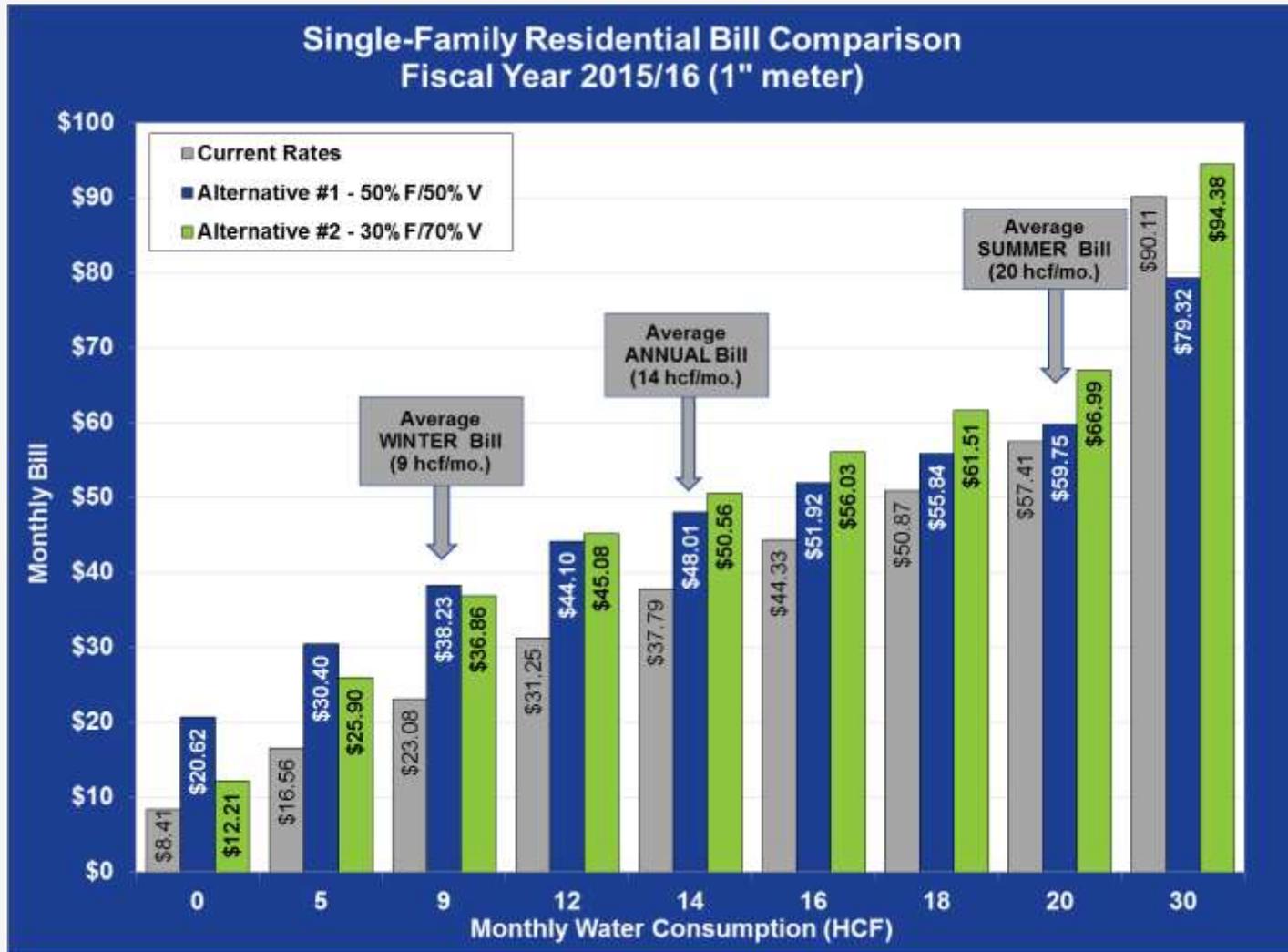
# Water Rate Outcomes – Alternative #1

Water Rate Schedule	Current Rates	Proposed Water Rates Alternative #1 50% Fixed / 50% Variable				
		FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
<i>Projected Increase in Rate Revenue per Financial Plan:</i>		9.00%	7.25%	7.25%	7.25%	7.25%
<b>Fixed Service Charges</b>	<b>Monthly Rates</b>					
<u>Single- and Multi-Family Residential:</u>						
5/8 inch	\$8.41	\$20.62	\$22.11	\$26.92	\$28.87	\$30.96
3/4 inch	\$8.41	\$20.62	\$22.11	\$26.92	\$28.87	\$30.96
1 inch	\$8.41	\$20.62	\$22.11	\$26.92	\$28.87	\$30.96
1.5 inch	\$13.99	\$38.88	\$41.70	\$50.76	\$54.44	\$58.39
2 inch	\$22.48	\$60.80	\$65.21	\$79.37	\$85.13	\$91.30
3 inch	\$44.90	\$119.25	\$127.90	\$155.67	\$166.96	\$179.07
4 inch	\$72.69	\$185.00	\$198.42	\$241.51	\$259.02	\$277.80
6 inch	\$111.65	\$367.66	\$394.31	\$479.95	\$514.75	\$552.07
<u>Non-Residential:</u>						
5/8 inch	\$8.41	\$31.28	\$33.54	\$40.83	\$43.79	\$46.96
3/4 inch	\$8.41	\$31.28	\$33.54	\$40.83	\$43.79	\$46.96
1 inch	\$8.41	\$31.28	\$33.54	\$40.83	\$43.79	\$46.96
1.5 inch	\$13.99	\$60.20	\$64.56	\$78.58	\$84.28	\$90.39
2 inch	\$22.48	\$94.90	\$101.78	\$123.89	\$132.87	\$142.51
3 inch	\$44.90	\$187.45	\$201.04	\$244.71	\$262.45	\$281.48
4 inch	\$72.69	\$291.57	\$312.71	\$380.63	\$408.22	\$437.82
6 inch	\$111.65	\$580.79	\$622.89	\$758.18	\$813.15	\$872.10
<u>Fire Service:</u>						
3 inch	--	\$7.69	\$8.24	\$10.03	\$10.76	\$11.54
4 inch	\$16.58	\$13.02	\$13.96	\$17.00	\$18.23	\$19.55
6 inch	\$24.86	\$26.73	\$28.67	\$34.90	\$37.43	\$40.14
8 inch	\$33.15	\$45.02	\$48.28	\$58.77	\$63.03	\$67.60
10 inch	\$41.43	\$69.40	\$74.43	\$90.59	\$97.16	\$104.20
<b>Volumetric Charges</b>						
<u>Single-Family Res / Multi-Family Res per DU:</u>						
Tier 1 (1-10 hcf / 1-8 hcf)	\$1.63	--	--	--	--	--
Tier 2 (11-30 hcf / 9-16 hcf)	\$3.27	--	--	--	--	--
Tier 3 (31+ hcf / 17+)	\$4.90	--	--	--	--	--
Uniform Rate, Non-Residential Customers	\$2.67	--	--	--	--	--
Uniform Rate, All Customers	--	\$1.96	\$2.10	\$2.32	\$2.49	\$2.67

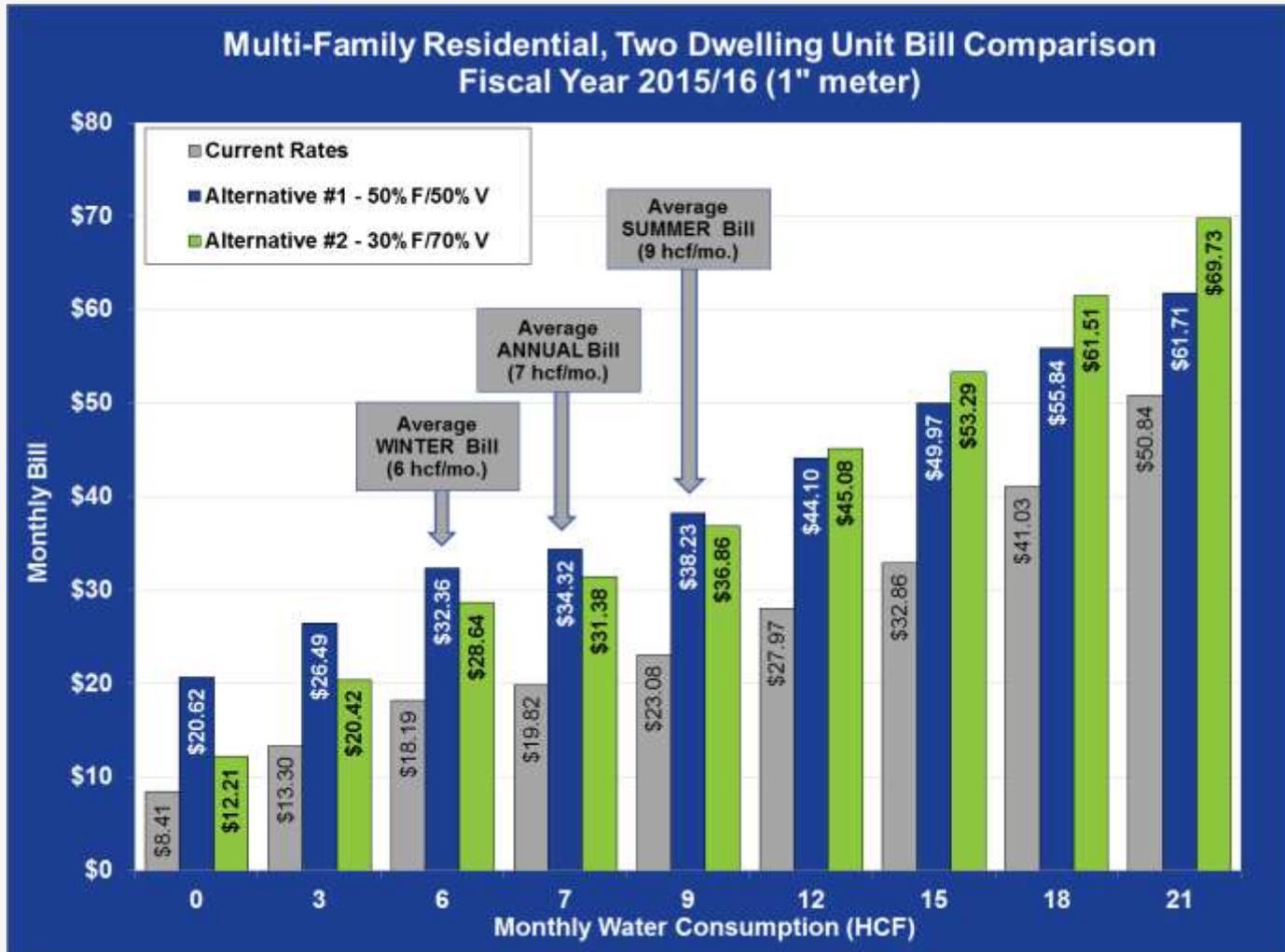
# Water Rate Outcomes – Alternative #2

Water Rate Schedule	Current Rates	Proposed Water Rates Alternative #2 Phased-in Transition to 70% Fixed / 30% Variable				
		FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
<i>Projected Increase in Rate Revenue per Financial Plan:</i>		<b>9.00%</b>	<b>7.25%</b>	<b>7.25%</b>	<b>7.25%</b>	<b>7.25%</b>
<b>Fixed Service Charges</b>	<b>Monthly Rates</b>					
<u>Single- and Multi-Family Residential:</u>						
5/8 inch	\$8.41	\$12.21	\$17.52	\$26.92	\$34.74	\$43.62
3/4 inch	\$8.41	\$12.21	\$17.52	\$26.92	\$34.74	\$43.62
1 inch	\$8.41	\$12.21	\$17.52	\$26.92	\$34.74	\$43.62
1.5 inch	\$13.99	\$23.02	\$33.04	\$50.76	\$65.52	\$82.27
2 inch	\$22.48	\$35.99	\$51.66	\$79.37	\$102.45	\$128.64
3 inch	\$44.90	\$70.59	\$101.32	\$155.67	\$200.94	\$252.30
4 inch	\$72.69	\$109.52	\$157.19	\$241.51	\$311.74	\$391.42
6 inch	\$111.65	\$217.65	\$312.37	\$479.95	\$619.51	\$777.85
<u>Non-Residential:</u>						
5/8 inch	\$8.41	\$18.51	\$26.57	\$40.83	\$52.70	\$66.17
3/4 inch	\$8.41	\$18.51	\$26.57	\$40.83	\$52.70	\$66.17
1 inch	\$8.41	\$18.51	\$26.57	\$40.83	\$52.70	\$66.17
1.5 inch	\$13.99	\$35.64	\$51.15	\$78.58	\$101.43	\$127.36
2 inch	\$22.48	\$56.18	\$80.63	\$123.89	\$159.92	\$200.79
3 inch	\$44.90	\$110.97	\$159.27	\$244.71	\$315.86	\$396.59
4 inch	\$72.69	\$172.61	\$247.73	\$380.63	\$491.31	\$616.88
6 inch	\$111.65	\$343.82	\$493.45	\$758.18	\$978.64	\$1,228.77
<u>Fire Service:</u>						
3 inch	--	\$6.73	\$7.69	\$10.03	\$11.43	\$12.99
4 inch	\$16.58	\$12.06	\$13.38	\$17.00	\$18.89	\$21.01
6 inch	\$24.86	\$25.77	\$28.02	\$34.90	\$38.09	\$41.61
8 inch	\$33.15	\$44.06	\$47.54	\$58.77	\$63.67	\$69.09
10 inch	\$41.43	\$68.43	\$73.56	\$90.59	\$97.79	\$105.72
<b>Volumetric Charges</b>						
<u>Single-Family Res / Multi-Family Res per DU:</u>						
Tier 1 (1-10 hcf / 1-8 hcf)	\$1.63	--	--	--	--	--
Tier 2 (11-30 hcf / 9-16 hcf)	\$3.27	--	--	--	--	--
Tier 3 (31+ hcf / 17+)	\$4.90	--	--	--	--	--
Uniform Rate, Non-Residential Customers	\$2.67	--	--	--	--	--
Uniform Rate, All Customers	--	\$2.74	\$2.51	\$2.32	\$1.99	\$1.60

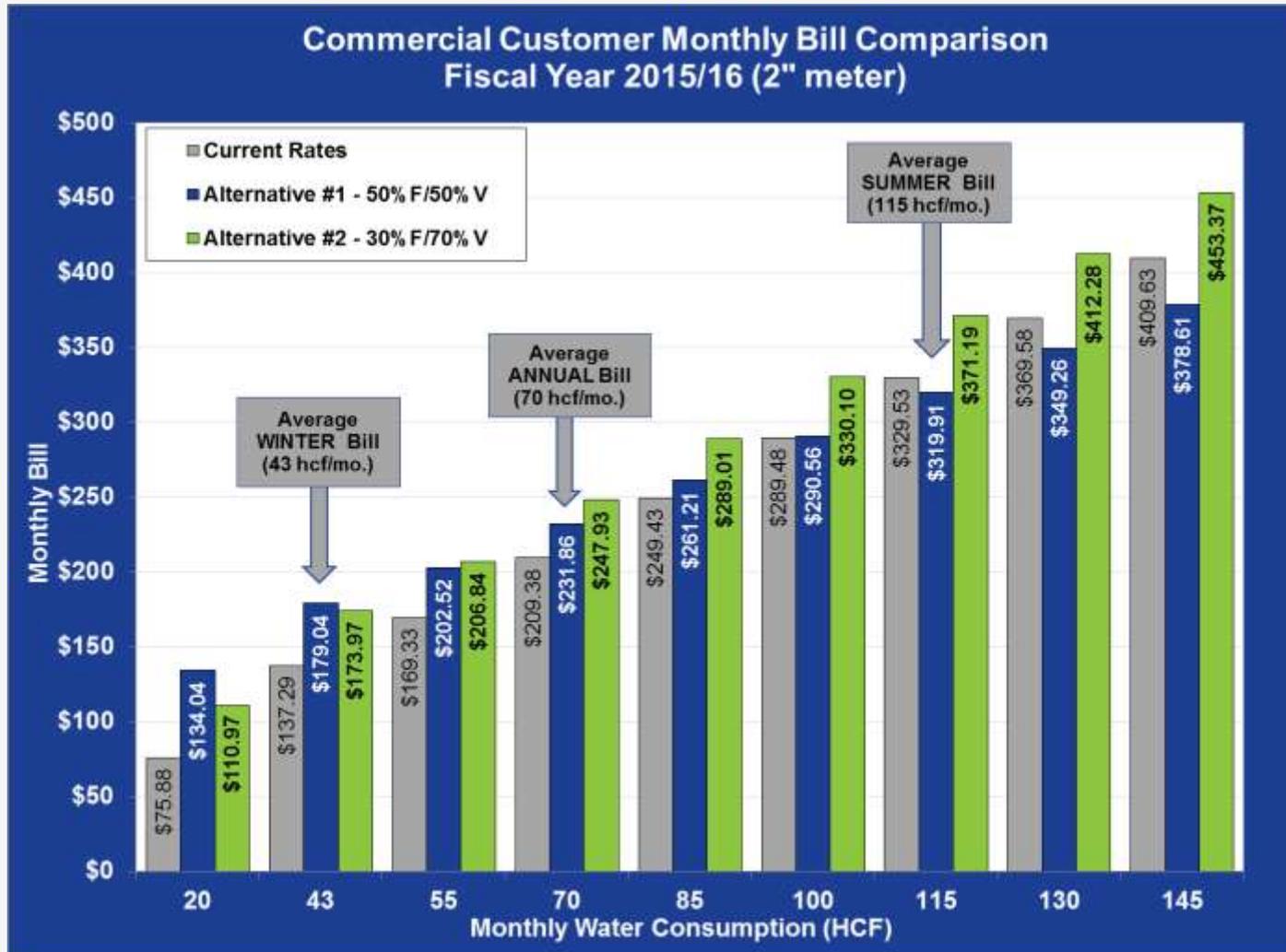
# Water Bill Comparisons



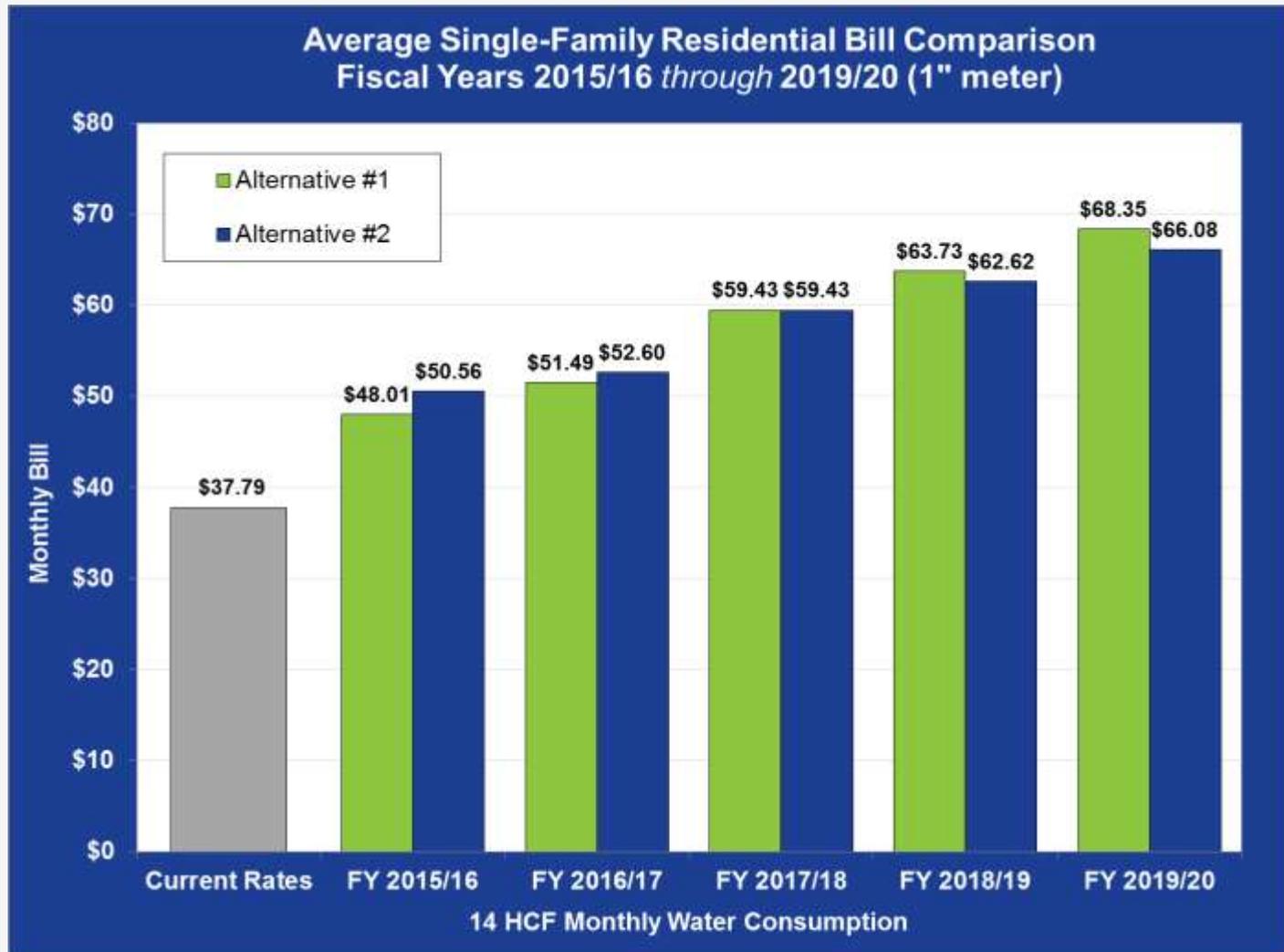
# Water Bill Comparisons, cont'd.



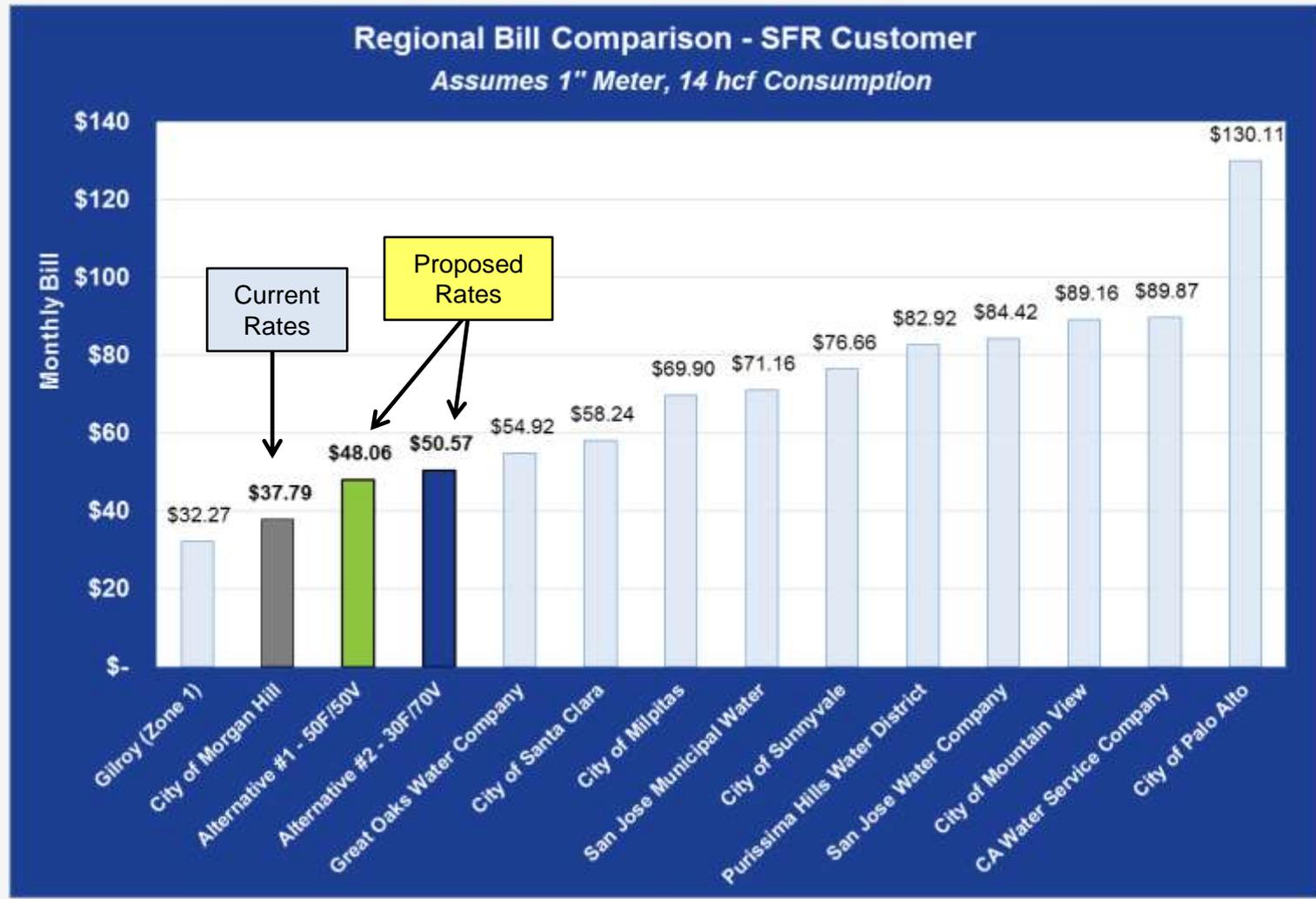
# Water Bill Comparisons, cont'd.



# Water Bill Comparisons, cont'd.



# Water Bill Comparisons, continued



# Wastewater Rate Study

## *Findings, Recommendations & Outcomes*

# Wastewater Rate Study Findings

## Current Wastewater Rates Will Not be Sufficient Long-Term to Continue Meeting Annual Revenue Requirements Due to:

1. Projected Increases in Costs due to Inflation.
2. Need to Fund Capital Rehabilitation/Replacement and Improvement.
3. Need to Maintain Adequate Reserves.
4. Need to Continue Meeting Debt Coverage Requirement.

# Wastewater Rate Study Recommendations

## ***Recommended Reserve Fund Targets:***

- 1. Operations Reserve** - Equal to 90-days of O&M Expenditures, or \$1.9 million in FY 2015/16.
- 2. Water System Replacement Reserve** – Equal to 3% of Net Assets, or \$1.5 million in FY 2015/16.
- 3. Rate Stabilization Reserve** – *Per City Policy*, Equal to 20% of Estimated Rate Revenue, or \$1.9 million in FY 2015/16.

## ***Debt Coverage Requirement:***

- City Must Maintain a 1.25 Debt Coverage Ratio to Comply with Revenue Bond Covenants.

# Wastewater Capital Improvement Program

Wastewater Utility - Planned Capital Improvement Projects	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
Sanitary Sewer Rehabilitation	\$ 730,000	\$ 626,296	\$ 3,790,387	\$ 942,957	\$ 1,263,251
Sewer Plant Expansion	\$ 1,328,000	\$ 717,394	\$ 1,370,626	\$ 4,938,874	\$ 5,803,078
Sewer Plant Improvement	\$ 8,525,000	\$ 1,224,642	\$ 85,731	\$ 88,749	\$ 91,348
Lift Station Rehabilitation	\$ 1,298,000	\$ 1,076,608	\$ 1,818,571	\$ 221,872	\$ 287,103
New Trunk Line	\$ 1,886,000	\$ 3,490,694	\$ 3,388,523	\$ 2,806,683	\$ 3,330,390
New Sewer Mains	\$ -	\$ 859,216	\$ 1,145,582	\$ -	\$ -
Recycled Water MP / Supplemental Study	\$ 400,000	\$ -	\$ -	\$ -	\$ -
<b>Total: Capital Improvement Program Costs<sup>1</sup></b>	<b>\$14,167,000</b>	<b>\$ 7,994,850</b>	<b>\$11,599,421</b>	<b>\$ 8,999,134</b>	<b>\$10,775,169</b>
<b>Planned CIP Funding Sources</b>					
Revenue Bond Proceeds	\$ 2,246,000	\$ 3,197,287	\$ 2,696,000	\$ -	\$ -
Impact Fees (New Customers)	\$11,921,000	\$ 4,830,243	\$ 8,710,282	\$ 7,745,557	\$ 9,133,467
Wastewater Rates and Reserves (Existing Customers)	\$ -	\$ -	\$ 193,139	\$ 1,253,578	\$ 1,641,702
<b>Total: Capital Funding Sources</b>	<b>\$14,167,000</b>	<b>\$ 8,027,530</b>	<b>\$11,599,421</b>	<b>\$ 8,999,134</b>	<b>\$10,775,169</b>

1. Capital Improvement Program costs are in projected future values (includes cost inflation of 3.52% per year).

**Total Capital Expenditures Planned for Next Five Years = \$53.6 mil.**

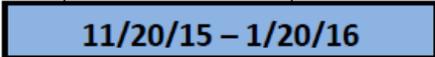
# Next Steps

1. Return to City Council with Final Rate Study.
2. Council Adopts Study and Initiates the Proposition 218 Process.
3. Conduct Proposition 218 Process (i.e. Mail Notices and Conduct Public Hearing).
4. Tally Protests.
5. Proposition 218 Protest Process Determination, and Rate Adjustment is Implemented if There is No Majority Protest.

# What is Proposition 218?

- Proposition 218 Approved by California Voters in November 1996
  - ✓ Fee may not exceed cost of service.
  - ✓ Fee may not be used for any purpose other than for which fee was imposed without a nexus to providing services related to fee.
- City is Required to Provide Mailed Notice of Any Property-related Fee changes at Least 45-days Before Holding a Public Hearing to Consider Proposed Adjustments
  - ✓ Those that are opposed to the proposed rate adjustments can return the “protest” ballot that they receive in the mail.
  - ✓ If 50% +1 of customers “protest” the proposed rate adjustments, City Council cannot implement the proposed rate adjustments.

# Rate Adjustment Timeline

Action	2015			2016		
	October	November	December	January	February	March
Workshop	Tonight 					
Approve Rate Study		11/18 				
Prop 218 Protest Period		11/20/15 – 1/20/16 				
Public Hearing				1/20 		
Adopt Rates				1/27 		
New Rates Effective						3/28 

# Where to Find More Information

## ✓ Visit:

- <http://www.morgan-hill.ca.gov/1450/Rate-Adjustments>

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# Questions and Discussion

- Council Discussion
- Public Comment
- Question and Answer